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SIPDIS

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E.O. 12958: N/A

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SUBJECT: TURKEY AND BTC: WAITING FOR OIL AT THE GEORGIAN BORDER

REF: A. ANKARA 5172 and previous

[1](#)B. ANKARA 2380

Sensitive But Unclassified. Please Handle Accordingly.

[1](#)1. (SBU) Summary: Turkey and Georgia are competing to see which will be the limiting bottleneck for first oil in the BTC pipeline, each side pointing vigorously at the other. As the contest will have contractual ramifications for settling construction delays and cost overruns, it has led to some tension between BOTAS (Turkey's prime contractor and operator) and the BTC Consortium (led by BP and operator for Georgia). Mid-October is the likely date for oil at the Turkish border, meaning first oil at Ceyhan in December at best, and good possibility of slippage to 2006 (Ref A). End Summary.

Construction Challenges - Who will be First and Last?

[1](#)2. (SBU) EnergyOff traveled to PT1 - Pump Station One in Turkey - on September 20, observing construction on the site being wrapped up at a feverish pace. Key "punch" (remaining to be completed) items that have delayed completion are: electrical linkages and critical telecom connections and back-ups to outside the station (Ceyhan and Baku). It is still not clear whether Turkey will be ready first to receive oil or Georgia will be ready first to provide oil, respectively, at the border.

[1](#)3. (SBU) The BOTAS PT1 site manager lamented the challenges BOTAS has faced in moving construction along under its fixed price turnkey contract. He attributed significant problems to the excessively low winning bids from BOTAS (overall prime contract for Turkey) and TEPE (Turkish well-connected sub-contractor for Lot A - starting at the Georgian border - and four pump stations; with Dutch Nacap as technical partner). TEPE early on experienced cash flow problems due to lack of technical expertise and delays in completing construction camps (leading to over-spending on hotels and restaurants for construction crews). According to the site manager, over 152 separate sub-contractors had stepped on the site (and there was a construction peak of over 500 employees). The manager noted that there were some design flaws and inefficiencies, like too much concrete poured. Cash flow problems culminated earlier this year in BOTAS taking over the contract from TEPE, receiving loans from the BTC consortium to complete the contract.

[1](#)4. (SBU) BOTAS and the BTC Consortium have recently been at odds about who will be ready - or not ready - first. BTC Consortium, led by BP, represents overall oversight and the project sponsors, and also operates the pipeline in Georgia. BOTAS officials (on the site and in Ankara) complained to EnergyOff that BTC had not been straight with them on when oil would reach the border. Targets have moved around prospective dates in September and October; BOTAS believes that oil will be ready at the Georgian border on October 15, and that they will be ready to receive it. (This means first oil inauguration at Ceyhan in December at best, and good possibility of slippage to 2006 - Ref A.) The party responsible for a delay at transiting the border will be in a weaker position in the inevitable contractual disputes over cost overruns. BOTAS completed its natural gas spur pipeline to provision the pump station, completing comparable reinstatement on its parallel route to Lot A.

[1](#)5. (SBU) According to BOTAS and BTC officials, first tanker oil was off-loaded at Ceyhan on September 15 to implement pre-commissioning of the tanks to enhance readiness for first pipeline oil. EnergyOff traveled parts of Lot A near the Georgian border, noticing extensive soil reinstatement and reseeded and anti-erosion measures on the mountainous route.

Human Rights Complaints Appear Trumped Up - Seeking Local

16. (SBU) In a visit to Ankara, the UK contact point for OECD Guidelines for Multi-National Enterprises (the OECD "complaint process") spoke to EnergyOff about alleged human rights violations made by the London-based Kurdish Human Rights Project, purportedly affecting Kurdish villagers around Ardahan on Lot A. While the British official heard complaints from villagers about insufficient and/or slow resolution of construction-related damages, he did not perceive this as being systematic and related to purported "Kurdishness". While he (and EnergyOff in separate visits to villages around Erzurum - Ref B) was aware of construction-related complaints, he stated that the BTC complaint process was open (internet based and tracked), robust, and generous. There is not evidence of any sort of systematic human rights abuses. Rather, he believes that London-based Kurdish groups, and Friends of the Earth (for alleged environmental problems) have "piled on" the opportunity to work their target issues on a highly visible international project. Embassy perceives that Turkey's domestic Kurdish human rights community has not taken up the London-based Kurdish group's anti-BTC cause.

17. (SBU) Observers note there have been valid complaints related to slow resolution of construction related damages, but they also note that the perception of BTC's deep pocket and the closing of the window of opportunity for personal enrichment have increased complaints. A Kurdish employee of BOTAS emphasized to EnergyOff his perception that there was no substance or traction to the complaints of the Kurdish villagers. EnergyOff heard broad support and praise for the employment and community assistance programs engendered by BTC. This was supported by a random survey by EnergyOff of interlocutors in the regional capital of Kars: Chamber of Commerce President; restaurant and shop owners; city officials at the museum; guides and group of army officials picnicking at the nearby historic Armenian site of Ani. Note: Kars suffers as a border town next to a closed border (with Armenia), but appeared positive, bustling, and secular (contrasting with the image portrayed in a popular novel by Orhan Pamuk) to EnergyOff. They were also eager for the arrival of natural gas from a distribution tender targeted for late 2006; they notice the arrival of pipe by train for the Shah Deniz natural gas pipeline to parallel BTC. End Note.

Security Measures

18. (SBU) EnergyOff was impressed with visible security features at the Pump Station and Lot A. Finishing touches were underway on a double outside perimeter fence, a separate inside perimeter fence, gate guard facility, and corner guard towers. According to the site manager, there were regular contacts with the Jandarma (Turkish military police) force, which was completing a separate two building permanent security facility overlooking the pump station. He noted that there was a spate of small acts of "sabotage", an unfortunate, but normal, feature of winding down a big construction project. The manager said that contacts with Jandarma had increased because of this, in particular in light of one written threat received. EnergyOff observed a fenced underground valve station and stretches of the buried pipeline along Lot A. While a determined bad guy might be able to dig down to the pipe, it would be difficult to remain undetected given presence of significant roving Jandarma presence and local nomads and villagers (presumably "bought in") in the mostly tree-less and rough terrain.

Comment - First Oil Must Be Real

19. (SBU) BTC, BOTAS, and Turkey's MFA are in agreement on not wanting to do an artificial first-oil inauguration at Ceyhan (Ref A). BTC's current projection for first pipeline oil export is late-December. BOTAS points out the technical difficulties of facilitating first oil over Turkish mountains in cold weather (crews will have to follow the first "pig" which will lead initial plugs of liquid nitrogen, which will precede first oil). All parties recognize great likelihood of slippage, so first oil inauguration may slip to 2006, and it might as well be planned for March to aim for better weather in Ceyhan (RefTel). While slipping from 2005 would be a disappointment, it still does not detract from the remarkable success of this rugged three-country project, achieved with strong common support from the governments of the U.S. and Turkey.